

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Township of Newton
Calhoun County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Newton, Michigan**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Township of Newton, Michigan, as of June 30, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Newton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Township of Newton, Michigan, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 7, the Township has corrected its method of financial presentation to conform to the financial reporting model required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

The budgetary comparison information, on pages 15 through 16, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Township of Newton, Michigan
Page 2

The Township of Newton, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Siegfried Crandall P.C.

October 27, 2005

BASIC FINANCIAL STATEMENTS

Township of Newton
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental activities</u>
ASSETS	
Current assets:	
Cash	\$ 315,281
Due from other governmental units	<u>58,998</u>
Total current assets	<u>374,279</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>527,452</u>
Total assets	<u>901,731</u>
LIABILITIES	
Current liabilities - payables	<u>547</u>
NET ASSETS	
Invested in capital assets	527,452
Unrestricted	<u>373,732</u>
Total net assets	<u>\$ 901,184</u>

See notes to financial statements

Township of Newton
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

		<u>Program revenues</u>			<u>Net (expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>revenues and</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>	<u>grants and</u>	<u>changes in</u>
			<u>contributions</u>	<u>contributions</u>	<u>net assets</u>
Functions/Programs					Governmental
					activities
Governmental activities:					
Legislative	\$ 2,030	\$ -	\$ -	\$ -	\$ (2,030)
General government	176,166	24,691	-	-	(151,475)
Public safety	136,843	19,365	1,650	18,270	(97,558)
Public works	7,294	6,807	3,411	-	2,924
Community and economic development	<u>6,220</u>	<u>1,710</u>	<u>-</u>	<u>-</u>	<u>(4,510)</u>
Total governmental activities	<u>\$ 328,553</u>	<u>\$ 52,573</u>	<u>\$ 5,061</u>	<u>\$ 18,270</u>	<u>(252,649)</u>
General revenues:					
Property taxes					59,704
State shared revenue					168,894
Franchise fees					12,505
Investment income					4,805
Miscellaneous					<u>1,238</u>
Total general revenues					<u>247,146</u>
Change in net assets					(5,503)
Net assets - beginning					<u>906,687</u>
Net assets - ending					<u>\$ 901,184</u>

See notes to financial statements

Township of Newton
BALANCE SHEET - General Fund
June 30, 2005

ASSETS

Cash	\$ 315,281
Due from other governmental units	<u>58,998</u>
Total assets	<u>\$ 374,279</u>

LIABILITIES AND FUND BALANCES

Liabilities - payables	<u>\$ 547</u>
Fund balances - unreserved:	
Designated	21,153
Undesignated	<u>352,579</u>
Total fund balances	<u>373,732</u>
Total liabilities and fund balances	<u>\$ 374,279</u>
Total fund balances	\$ 373,732

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.	<u>527,452</u>
Net assets of <i>governmental activities</i>	<u>\$ 901,184</u>

See notes to financial statements

Township of Newton
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - General Fund
Year ended June 30, 2005

REVENUES

Property taxes	\$ 72,803
Licenses and permits	30,658
Federal grants	18,270
State grants	172,305
Charges for services	12,422
Interest and rentals	5,685
Other	<u>10,907</u>
Total revenues	<u>323,050</u>

EXPENDITURES

Legislative	2,030
General government	166,139
Public safety	97,499
Public works	7,294
Community and economic development	6,220
Capital outlay	<u>42,815</u>
Total expenditures	<u>321,997</u>

NET CHANGE IN FUND BALANCE 1,053

FUND BALANCE - BEGINNING 372,679

FUND BALANCE - ENDING \$ 373,732

Net change in fund balance \$ 1,053

Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Add: Capital asset acquisitions	38,762
Deduct: Provision for depreciation	<u>(45,318)</u>

Change in net assets of *governmental activities* \$ (5,503)

See notes to financial statements

Township of Newton
STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund*
June 30, 2005

ASSETS

Cash	\$ <u>6,514</u>
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LIABILITIES

Due to other governmental units	\$ <u>6,514</u>
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See notes to financial statements

Township of Newton
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Newton, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

Township of Newton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) *Measurement focus, basis of accounting, and financial statement presentation* (continued):

The Township reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

The Township reports two fiduciary funds, its Tax Collection and Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

d) *Assets, liabilities, and net assets or equity:*

i) *Bank deposits* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) *Receivables* - No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) *Capital assets* - Capital assets, which include property, equipment, and infrastructure assets (e.g., roads and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning July 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Equipment	5 - 20 years
Vehicles	20 years
Shared road costs	20 years

Township of Newton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity (continued):*

iv) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

v) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth the significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	Assessor	\$92,537	\$113,463	\$ (20,926)
		Hall and grounds	75,305	78,030	(2,725)
		Other	9,200	12,537	(3,337)

NOTE 3 - CASH:

At June 30, 2005, cash consisted of the following:

	<u>Governmental activities</u>	<u>Fiduciary</u>	<u>Total</u>
Deposits with financial institutions	\$ 315,181	\$ 6,514	\$ 321,695
Cash on hand	100	-	100
Total cash	<u>\$ 315,281</u>	<u>\$ 6,514</u>	<u>\$ 321,795</u>

Deposits with financial institutions:

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Township of Newton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH (Continued):

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At June 30, 2005, \$236,048 of the Township's bank balances of \$326,048 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2005, was as follows:

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 77,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,340</u>
Capital assets being depreciated:				
Buildings	306,000	-	-	306,000
Equipment	229,728	38,762	-	268,490
Vehicles	<u>499,000</u>	<u>-</u>	<u>-</u>	<u>499,000</u>
Subtotal	<u>1,034,728</u>	<u>38,762</u>	<u>-</u>	<u>1,073,490</u>
Less accumulated depreciation for:				
Buildings	187,860	6,345	-	194,205
Equipment	67,400	17,023	-	84,423
Vehicles	<u>322,800</u>	<u>21,950</u>	<u>-</u>	<u>344,750</u>
Subtotal	<u>578,060</u>	<u>45,318</u>	<u>-</u>	<u>623,378</u>
Total capital assets being depreciated, net	<u>456,668</u>	<u>(6,556)</u>	<u>-</u>	<u>450,112</u>
Governmental activities capital assets, net	<u>\$ 534,008</u>	<u>\$ (6,556)</u>	<u>\$ -</u>	<u>\$ 527,452</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 8,717
Public safety	<u>36,601</u>
Total governmental activities	<u>\$ 45,318</u>

Township of Newton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 6 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2005, is as follows:

Revenues	\$ 18,154
Expenses	<u>20,392</u>
Deficiency of revenues over expenses	<u>\$ (2,238)</u>

NOTE 7 - CORRECTION OF ERROR

Effective July 1, 2004, the Township adopted the financial reporting model required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Implementation of this statement was required July 1, 2003. In connection with the adoption of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change:

Net assets as previously reported	\$ 372,679
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>534,008</u>
Net assets, as restated	<u>\$ 906,687</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Newton
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 71,710	\$ 71,710	\$ 72,803	\$ 1,093
Licenses and permits	32,000	32,000	30,658	(1,342)
Federal grant	18,270	18,270	18,270	-
State grants	173,716	173,716	172,305	(1,411)
Charges for services	14,880	14,880	12,422	(2,458)
Interest and rentals	4,630	4,630	5,685	1,055
Other	12,772	12,772	10,907	(1,865)
Total revenues	<u>327,978</u>	<u>327,978</u>	<u>323,050</u>	<u>(4,928)</u>
EXPENDITURES				
Legislative	<u>2,420</u>	<u>2,420</u>	<u>2,030</u>	<u>390</u>
General government:				
Supervisor	10,794	10,794	10,544	250
Elections	3,740	4,190	3,736	454
Assessor	14,616	14,616	19,886	(5,270)
Clerk	16,926	16,926	16,431	495
Board of review	900	900	550	350
Treasurer	15,860	15,860	15,699	161
Hall and grounds	75,755	75,305	78,030	(2,725)
Cemetery	9,750	9,750	8,726	1,024
Other	9,200	9,200	12,537	(3,337)
Total general governmental	<u>157,541</u>	<u>157,541</u>	<u>166,139</u>	<u>(8,598)</u>
Public safety:				
Fire protection	82,775	82,775	83,176	(401)
Inspections	<u>16,300</u>	<u>16,300</u>	<u>14,323</u>	<u>1,977</u>
Total public safety	<u>99,075</u>	<u>99,075</u>	<u>97,499</u>	<u>1,576</u>
Public works:				
Road maintenance	-	-	46	(46)
Street lighting	5,400	5,400	5,310	90
Drains	<u>2,000</u>	<u>2,000</u>	<u>1,938</u>	<u>62</u>
Total public works	<u>7,400</u>	<u>7,400</u>	<u>7,294</u>	<u>106</u>

Township of Newton**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 7,700</u>	<u>\$ 7,700</u>	<u>\$ 6,220</u>	<u>\$ 1,480</u>
Capital outlay	<u>61,500</u>	<u>61,500</u>	<u>42,815</u>	<u>18,685</u>
Total expenditures	<u>335,636</u>	<u>335,636</u>	<u>321,997</u>	<u>(13,639)</u>
NET CHANGE IN FUND BALANCES	<u>(7,658)</u>	<u>(7,658)</u>	<u>1,053</u>	<u>8,711</u>
FUND BALANCES - BEGINNING	<u>372,679</u>	<u>372,679</u>	<u>372,679</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 365,021</u>	<u>\$ 365,021</u>	<u>\$ 373,732</u>	<u>\$ 8,711</u>